

5 Dec 56 FRB Agul
9 January 1957
Ramory, Jr.:jb
DRAFT for BUSINESS
ADVISORY COUNCIL

~~Administration~~
New Soviet "Collective" ~~Admiral~~ in roughly as long as Eisenhower's

Last year and a half have been really revealing

And last 3 months have given it greatest crisis

Slow developing and feeling way 53 to early 55

Liquidation Beria - subordinating Secret Police - at least
pretense of rule of law.

Peace in Korea and Indo-China.

Heavy and Light Industry squabble leading to demoting Malenkov

April '55 Dramatic new look Foreign Policy

Swift-surefooted moves

Austria

Bandung (taking heat off Formosa straits)

Jugo make up

Arms to Arabs

Geneva

Armed Forces reductions

Trade drive in undeveloped areas

Collegium or Collective Dictatorship has worked much better than

capricious obscurantist absolutism of Stalin.

Don't get too excited about rival groupings - in one sense all
Stalinists - in another none wants full return.

All participate in Presidium - negative votes recorded

Army not separate political force though influential key political
questions as in Satellites as Radford and JCS are.

Renewed importance Central Committee as Court of Appeal down

130 + 120 alternates roughly 50-50 top Party; top administrators and handful of soldiers, writers, etc.

cf. U.S. Cabinet and State Party Chairmen and 100 top industrialists and financiers.

(Heavy-Light industry)

Malenkov-Molotov (make up with Jug) Cases.

Crucial meetings ~~this very moment~~ ^{currently}.

Climax 20th Party Congress last February - Public and Secret

Themes: Non inevitability of War.

Many roads to socialism

Obliteration of Stalin

Secret Speech - Denigration - as if made George Washington into Al Capone or Ben Arnold - Why?

Needed to settle substantive issues as against dissenters at high and medium level . . .

For 25 years all achievements of Soviets attributed to Stalin.

Hence, new leadership could not alter policies he had advocated without frankly taking issue with record and personality of Stalin.

All informed Soviet citizens hated and feared Stalin. Doctor's (Jan '53) plot renewed psychosis of 30s terror. Hence, the key elements of population could be wooed only by associating him exclusively with these evils and picturing the new leaders as helpless near victims.

Masses perplexed but would come round.

Foreign parties discombobulated but Soviets

a) Never subordinate domestic decisions to foreign policy repercussions

b) New "soft" foreign policy was nowhere near so dependent on non-disciplined leadership as old intransigent threatening policy of Stalin.

Our publication upset timetable and clearly added to confusion outside Soviet Union.

All this came awry in Satellites --

What Soviet tried to do:

Loosen reins - abandoned dictating details of administration

Wanted "sympathetic" "allied" regimes - Commies but not automatons or puppets.

Almost a commonwealth

Two phases - straighten out party leadership
get increasing popular support.

What happened in Poland -- (Poznan)

Conditions awful and party leadership knew drastic measures needed and real hero

Gomulka dusted off but drove hard bargain

Soviets and puppets tried Oct 17 to pinch Gomulka and pull back

Gomulka one jump ahead -- had gained control of secret police and armed workers and students -- Kremlin leaders found couldn't "bend" him and couldn't "break" him without all out military struggle--settled reluctantly - danger continues . . .

What happened in Hungary -

Moved much too slowly and at last moment Gero a colorless interim middle-of-reader inter Rakosi and Nagy panicked and fired whiff of grapeshot.

Soviets still showed restraint - October 30th statement and discussion of withdrawal until

(1) Wave of "White Terror" against hated AVH

(2) Abandonment of Commie Government, Warsaw Pact, Declaration
Neutrality convinced Kremlin this was Western backed Fascist
reaction ~~and~~ endangering basic military security.

(3) Outbreak of fighting in Near East which

a) increased danger general war hence required a quick
reestablishing military position Central Europe

Lessons - too early to be positive - but

- ① Essential dismal failure in 10 years to make any headway with workers, intellectuals, youth

40%
Lost ground - Budapest vote, '45 - "0" '56

collapse 18-02-12
cf. French Revolution - people counted as for revolution led counter revolution.

- ② Power of bare hands versus modern arms. Tanks ~~had to~~ *more than* Hitler '41 used to invade Russia.
- ③ Total unreliability Satellite armies
- ④ *Sov* End of friendship with Yugo.

^
But Hungarians got own freedom for 48 hours and the West wouldn't help them keep it.

Will the West help Poles, Jugs, Berliners? ? ?

EE remains much more dangerous breeding ground for WW III than ME

Inside Soviet Union:

Intelligentsia (define) disturbed - bulk of population ignorant true events.

Mild outbreaks trouble

But no discernible threat to security of regime

Changes in basic policies also doubtful though may be tougher in ideological front and easier on consumer goods

(Stricter party control - Molotov)

Increase housing and possibly consumer goods
~~Consumer goods production~~ - (to keep workers from making Communist cause with intellectuals)

But no return to Stalinist Terror yet - trying "psychological war" on students currently.

Leadership - Doubtless differences of opinion and recriminations.

-- so far --

But crisis seems to have induced unanimity rather than struggle

for scapegoat.

Key to question of Soviet collectives' endurance will be found not so much in foreign affairs in or outside the bloc but rather in their success or failure in their major announced goal: To develop Russia into the World's No. 1 industrial power.

Soviet leaders think and speak in terms of epochs and generally pride themselves on having perspective. E.g. Kaganovich's prediction that the world would be coming ^{wise} by the end of the 20th century. Kaganovich's statement to Senator Margaret Smith: "Not you or your daughter, but your granddaughter will be a Communist." Particularly they are looking at, and we should likewise, the "Post-war generation" 1945-1975, broken up into 6 five year plan periods. We stand toward the middle of that period and have certain rather clear readings on how they have fared and are likely to fare from here on out.

[Avoid talking in terms of GNP because so misleading in terms of power--will talk rather of industrial production (physical commodities produced in factories and shops) excludes agriculture, services, transportation and / ^{construction}). Will also illustrate by specific industries.]

In '46 the Russians were badly beat up, 12% of our industrial output.

Next five years saw prodigious growth - but ready, and to us reassuring, explanations were at hand:

- a) Marginal efficiency of Cap and Repair
- b) Transfers from farm labor and army
- c) Plus loot from Germany, Satellites, Manchuria

Relative gains were spectacular - figured they'd soon taper off.

But in following 5 years 51-55 these special factors were largely gone yet grew industrially by 70% ^{Compounded} of US 23% (Compound rate)

12% vs 4% (our own figures not Soviet claims). Fulfilled

ambitious 5th Five Year Plan in 4 1/3rd years.

Why? Basically because of forced draft gross investment

26% USSR $\frac{1}{2}$ to Industry
15% US $\frac{1}{4}$ to Industry

Industrially still only 26% of ours; and our NATO countries' absolute margin widened.

So why get excited?

C Consider a few specific comparisons for past year 55

Consumer goods pitiful (it is here that their vaunted plans are chronically underfulfilled).

Automobiles a little over 1% of ours

Washing Machines 2%

Radios and TVs 20%

Shoes, textiles, etc. more comparable in quantity but frightfully shoddy.

But in Heavy Industry -- Capital goods -- picture far different.

(Here plans are regularly overfulfilled and quality is generally up to Western standards)

Steel 40% of ours and closing the gap in absolute terms.

Freight cars $\frac{\text{equal}}{=}$ to us

Machine tools, the fundamental "multiplier," 105,000 to

85,000 U.S. ('55) 120,000 to 64,000 ('56)

Now let's look at the near term future 5 years through 1960

New Pervukhin committee reexamining 6th Five Year Plan but with injunction to continue to push

Heavy industry

Steel to 75 million tons

Over all Industrial growth 70%

Stress on productivity increase (Training - Engineers,
Scientists, automation, Incentive wage systems).

Obstacles:

① Mampower Shortage

② Will consumer demands interfere - doubtful - soft-hard
goods perceptibly more each year - enough to allay
discontent

③ Agriculture - the "Achilles Heel"

1956 Record Harvest ^{aver} 121 MMT cf. US 140 cf. 104 previous Sov
best record.

Hence, no absolute squeeze

Inefficient

End of Autarchy - no more limit than England Germany in
19th Century.

Foreign Aid - trade programs - 1.2 billion total credit
deals.

Selling stuff where most efficient - ruble worth 25 cents

Buying raw materials which domestic product ⁱⁿ most inefficient -
agriculture, minerals rouble with 7 cents or less.

Hence, probably a net gain economically as well as adding
foreign policy.

So conclude they probably will continue to grow 7% GNP

12% Industrially. NB this is plan and experience has to date
always exceeded plan.

If we project US 51-55 record (best ever - steeper than Paley Com.)

^{USSR}
Then 1964 = 1/2 US
1970 = 3/4
1975 Tie ballgame

well done on getting magazines
Meanwhile it is not too early to be casting a wary eye at Red China - originally looted but since '50 prodigiously aided by Soviet Capital Goods and technicians.

First Five-Year Plan 1952-7 ("Soon" to be completed) more successful than Russia's

90% of peasantry enrolled in collectives and convinced rather than liquidated. "Bloodless Revolution" - in progress anyway - a national resurgence kidnapped by local Commies.

Industrial Upsurge - admittedly from ^{insignificant} ~~significant~~ base
But far exceeding original estimates of.

22% of pitiful GNP into investment

cf. 47% top ambitious Indian Planners dare try.

Now 8th Congress announcing 2nd plan - 100% further increase over all

e.g. Steel up from 3 million to 12 million tons

machine tools - 60,000 units (3/4 US production)

1/2 total Industrial Production = Capital Goods

Will top Japan in '62

And intend to double every five years.

Hence, by '67 China with 30 million tons of steel will be roughly speaking in a 3-way tie with UK and W. Germany as the world's 3rd ranking industrial power.

While ready to pick up by revolution or subversion any tottering free world country, promoting disintegration and revolution not uppermost in ^{Soviet Leaders} their minds, (Communist Party of India has orders to help make India economic program work not obstruct it.)

They are concentrating on a classical tough power drive comparable to the real politics of Imperial Germany or the commercial expansion of Victorian Britain or the U.S.

First make themselves No. 1 industrial power

Second set contagious example for the underdeveloped nations that theirs is the short cut to plenty

Third demonstrate even to firmly independent, even capitalistic countries that their foreign trade policies more advantageous than those of U.S. (Long-term commitments - No strings, buying agricultural supplies even when don't need. Low-interest, soft loans.)

This long range policy developed in the years after Stalin's death and promulgated last spring at 20th Party Congress.

Based on unshakable confidence that they have the solution to the complex technological, sociological problems of 2nd half 20th century.

That their system of direction downward by a self perpetuating elite carefully replenished by a massive educational program can outstrip our system of control upward by free men speaking through the ballot box and the market place.

To the extent that it ever was an attractive idea Communism has been dealt a ~~an~~ mortal blow by the Hungarian people. It may be that this wound will also infect the dynamic power of the Russian state. ~~At~~ This we can be hopeful but by no means certain. On the basis of history any Russia and China that achieve industrial preponderance will constitute an immense threat to free man and free institutions everywhere in the world. Thus, Gentlemen, the critical importance of continued dynamic growth of the